



**ANNUAL
MEETINGS**
2022 | WASHINGTON DC
INTERNATIONAL MONETARY FUND
WORLD BANK GROUP



WORLD BANK GROUP

WBG Governor's Statement No. 12

October 14, 2022

Statement by the Hon. **SHUNICHI SUZUKI**,
Governor of the Fund and the Bank for **JAPAN**

Statement by the Hon. Shunichi Suzuki,
Governor of the Fund and the Bank for Japan

Firstly, Japan reiterates the strongest condemnation against Russia for its continued war of aggression against Ukraine. Russia's attempts to acquire territory by force, including its purported "incorporation" of some Ukrainian territory, are against international law, including the United Nations Charter. Such attempts are invalid and go diametrically against the principle of the rule of law in the international community. Moreover, the atrocities against civilians are breaches of international humanitarian law and war crimes. We reiterate that maintaining peace is indispensable for international economic and social cooperation, and Russia's acts in violation of this are absolutely intolerable.

I. THE GLOBAL ECONOMY AND THE JAPANESE ECONOMY

Russia's war of aggression against Ukraine, along with severe humanitarian and food insecurity, is exacerbating global economic challenges. We emphasize that ending this war is the most direct action that can promote global economic stability. Countries are facing significant price increases, energy supply constraints, and supply chain disruptions, with some countries experiencing inflation levels not seen in decades. The debt situations in low- and middle-income countries are becoming more serious as the United States and other countries accelerated their pace of monetary policy tightening and the global financial environment becomes increasingly severe. As many countries have limited fiscal buffers against the background of policy responses to the pandemic for more than two and a half years, they need to carefully steer their policies and ensure coordination among various policies.

In this context, member countries are asked to respond flexibly to the current crisis, including through credible fiscal rules that create policy space, and support vulnerable households through temporary and targeted fiscal measures while addressing inflation through appropriate policy responses. Once the recovery is firmly established, taking concrete steps to ensure long-term fiscal sustainability is also essential.

We are deeply concerned about the rapidly increasing volatility in the foreign exchange market. Concerning the Japanese yen, we have seen unprecedentedly sharp and one-sided movements, with speculative activities behind such moves. Against this backdrop, we conducted foreign exchange intervention last month for the first time since 2011. In principle, exchange rates should be determined by markets. Still, as internationally agreed

at the IMFC and in the G20/G7, “excessive volatility or disorderly movements in exchange rates can have adverse implications for economic and financial stability.” The international community needs to pay close attention to the impact of recent exchange rate movements on inflation, capital flows, and debt problems, and to address these problems appropriately.

The Japanese economy is expected to show movements of picking up, supported by the effects of various policies, as the transition to a new phase of “with corona”. On the other hand, we need to pay close attention to the risk that a downturn in overseas economies may put downward pressure on the Japanese economy against the backdrop of global monetary tightening and other factors. The Government will quickly implement measures in response to price hikes to achieve a virtuous cycle of growth and distribution. In order to move forward with a new form of capitalism, the Government will also accelerate public and private sector investment with an emphasis on four key areas: (i) investment in people, (ii) investment in science, technology and innovation, (iii) investment in start-ups, and (iv) investment in green transformation (GX), and digital transformation (DX).

II. EXPECTATIONS FOR THE IMF AND THE WORLD BANK

Now, let me express Japan’s expectations for both organizations.

In today’s the severe disruptions in the global economy, there is an increasing risk that debt becomes unsustainable in developing countries even further. Not only low-income countries, where debt vulnerabilities have been already a matter of concern, but also some middle-income countries are facing serious debt issues.

For low-income countries, it is crucial for creditor committees swiftly implement a debt treatment under the Common Framework and thereby provide predictability. As for vulnerable middle-income countries, all creditors, including private creditors, and donors need to work in a coordinated manner to restore debt sustainability, on the premise of debtor countries’ reform efforts.

Furthermore, it is critical to improve debt transparency and data accuracy in normal times in order to prevent future debt crises, and Japan highly commends the WBG’s initiatives in this area. Japan requires that the IMF and the WBG, with their extensive expertise in debt, will further strengthen analysis of debt transparency and capacity-building support for debtor countries. We also expect the IMF to present reform options necessary to enhance debt transparency and fill data gaps. In addition, given the growing concern on the opaqueness of some collateralized debts, we expect the IMF and the WBG, to conduct analysis and promote best practices for this type of financing tools.

Next, I will touch upon Japan's expectations for the IMF.

As global food insecurity continues, we commend the IMF's establishment of the new Food Shock Window. We hope that the IMF will promptly provide financial support to vulnerable countries that are facing food insecurity and in need of assistance. In addition, as multiple international organizations are making various efforts to address current food situation, it is important that these supports are effectively coordinated to enhance their impacts.

Japan welcomes initiation of the RST's pilot operationalization. The IMF should promptly support low-income and vulnerable middle-income countries and enable them to address long-term structural challenges, including climate change and pandemics, even when they are facing multiple risks and their policy space is narrowing. Japan pledged to channel 20 percent of our newly allocated SDRs in the last spring. We have finalized the Contribution Agreement of USD 1 billion (SDR 0.8 billion) as an initial contribution and plan to contribute the remaining SDRs worth USD 5.4 billion (SDR 4.1 billion) to the RST to support its early full-fledged operationalization. We continue to call for further pledges from all willing and able countries.

Support for LICs through the Poverty Reduction and Growth Trust (PRGT) is becoming increasingly important, including in responses to food insecurity. Japan contributed USD 80 million this April as a contribution to subsidy resources. We will continue to make a steadfast contribution to supporting LICs through the PRGT. In addition, we request the IMF strengthen its efforts in securing needed subsidy resources. We also encourage the IMF to consider options to use the IMF's internal resources toward a comprehensive review of Concessional Financing and Policies that will discuss the PRGT funding strategy beyond 2025.

Please let me discuss other key work of the IMF.

In the discussions of the 16th GRQ, Japan will continue to contribute constructively and pragmatically. To this end, we emphasize the following points.

Even in the emergency situations since the pandemic, thanks to activation of various layers of the global financial safety net (GFSN) and strong policy responses, even the New Arrangements of Borrow (NAB) has not been activated. This clearly demonstrates the sufficiency of Fund resources.

The demands for Fund's financial resources significantly fluctuate depending on conditions of the global economy. If member countries were to cover tail risk exclusively

through quota, they would need to allocate valuable resources to the Fund even under ordinary conditions, which is inefficient. In this regard, borrowed resources should continue to play an important role.

The current quota formula has many shortcomings, and we need to push forward with its reform. In order to secure financial resources for the IMF to support member countries, in particular for LICs, we urge to institutionalize incentive mechanisms for contributions by adding a variable of voluntary financial contributions in the quota formula.

Finally, the 16th GRQ should be agreed upon as a package, including the points above.

On Central Bank Digital Currencies (CBDCs) and other forms of digital money, Japan established the "Digital Money Window" under the Japan Subaccount for Selected Fund Activities (JSA) and contributed USD 15 million early this year to support the IMF's capacity development activities for developing countries. Japan looks forward to the IMF utilizing this window and actively supporting the introduction of CBDCs by member countries through preparation of a handbook for practitioners and capacity development activities, as well as stocktaking of member countries' considerations on CBDCs and risk analysis.

I will now turn to Japan's expectations for the WBG.

First, let me address global health.

It is important to build a more resilient and sustainable global health system to enhance prevention, preparedness, and response to future pandemics. In this regard, Japan appreciates the leadership of the WBG on the "Financial Intermediary Fund for Pandemic Prevention, Preparedness and Response (PPR FIF)" launched in September. Going forward, Japan expects the PPR FIF will receive support from donors more broadly and effectively fill the remaining gaps in the global health systems while creating synergetic effects with existing mechanisms. In recognition of the importance of the PPR FIF, Japan will contribute USD 50 million in total, including USD10 million that has already been announced.

Toward further enhancement of collaboration between financial and health officials, Japan supports the establishment of a Forum for health and finance coordination, which has been discussed at the G20. Japan expects the WBG to play a central and leading role by making the most of its abundant knowledge in the finance and development fields. In addition, it is critical to create surge finance mechanism, which can promptly supply funds in case a global health crisis occurs. Japan will continue discussions with the WBG in various fora including next year's G7 and G20.

Through these initiatives, Japan expects that strengthened health systems, including promotion of Universal Health Coverage (UHC) that Japan has long been advocating, will be achieved.

Secondly, I would like to address education.

Education is, along with health, the foundation of human development, or human capital development. Timely and tailored approach should be taken in accordance with the circumstances of each country, so that the loss of learning opportunities, which was accelerated by the COVID-19 pandemic, would not remain as a lingering scar in developing countries.

Meanwhile, the learning losses have adverse effects on various development issues such as employment and gender inequality. To solve these problems, not just education but a multi-faceted approach is needed. As the problems are interlinked with one another, expectations to the WBG are high since it has abundant knowledge and experiences in a wide range of development issues.

Third, I would like to address the energy and food issues. While poverty increases due to COVID-19, the price hikes of energy, fertilizers, and food caused by Russia's invasion of Ukraine and associated supply chain disruptions are particularly hitting vulnerable people in society. In view of realizing medium- to long-term development effects, Japan will make a total contribution of USD 20 million to the WBG, including to the IFC, and contribute to improving the food production capacity in developing countries in the medium- to long-term, and strengthening supply chains.

Lastly, in responding to climate change issues, each country needs to draw an ambitious and realistic transition path based on its circumstances, including the utilization of natural gas, which will be required when making the transition to clean energy, while striking the right balance with development. Japan expects the WBG's Country Climate and Development Reports (CCDRs) to play a key role in that process, and supports the WBG's target to roll out CCDRs in all WBG client countries over the next four years. Furthermore, as it is important to support emission reductions in clients including MICs, Japan expects the WBG to provide comprehensive support so that each developing country can pursue initiatives of mitigation and adaptation based on its transition path.

III. CLOSING

We would like to express our respect for and gratitude to the IMF and the WBG for the significant roles they have played in the global economy, and the contributions they have

made to international society. We expect them to continue their efforts in addressing the increasingly difficult global challenges, achieving strong, sustainable, balanced and inclusive growth, and achieving poverty reduction, in collaboration between the IMF and the WBG while properly sharing roles according to comparative advantages, within their respective mandates.